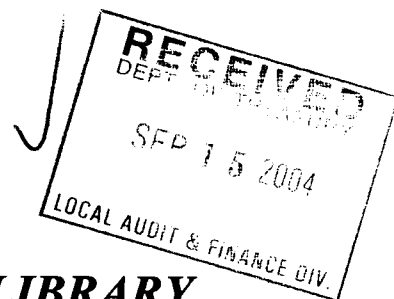


70-8002



NORTHEAST OTTAWA DISTRICT LIBRARY

COOPERSVILLE, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004



REHMANN ROBSON

Certified Public Accountants

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name NORTHEAST OTTAWA DISTRICT LIBRARY	County OTTAWA
Audit Date JUNE 30, 2004	Opinion Date JULY 30, 2004	Date Accountant Report Submitted to State: SEPTEMBER 9, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government* promulgated by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

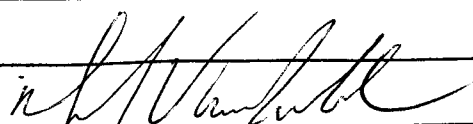
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

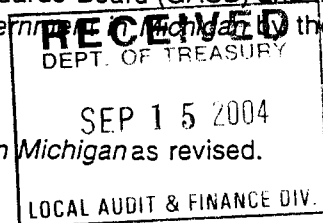
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			x
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name) REHMANN ROBSON			
Street Address PO BOX 6547	City GRAND RAPIDS	State MI	ZIP 49516-6547
Accountant Signature 			



NORTHEAST OTTAWA DISTRICT LIBRARY

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements for the Year Ended June 30, 2004	
Statement of Net Assets	9
Statement of Activities	10
Balance Sheet	11
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balances	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	15
Notes to Financial Statements	16-24
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

July 30, 2004

To the Board of Directors
Northeast Ottawa District Library
Coopersville, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund, of Northeast Ottawa District Library (the "Library") as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Northeast Ottawa District Library, as of June 30, 2004, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7, the Library adopted the provisions of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 and GASB Interpretation 6 as of and for the year ended June 30, 2004. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 30, 2004, on our consideration of the Northeast Ottawa District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Rehmann Lohorn

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Northeast Ottawa District Library (the "Library District"), we offer readers of the Northeast Ottawa District Library financial statements this narrative review and analysis of the financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

1. Contractual township added to library district

In late 2002, the Library District annexed the Charter Township of Tallmadge. The addition of Tallmadge completes the district's geographical name. The Northeast Ottawa District Library now serves the entire northeastern quadrant of Ottawa County. After annexation, the Library District population increased from 11,846 to 18,727 or 36%. Due to the district's population increase, we changed from a Class III to a Class IV library as certified by the State of Michigan.

Tallmadge Township did not join the district with millage, but rather contracted for library services to their residents in exchange for assignment of their Ottawa County Penal Fines to the Library District. Penal fines are based on per capita rates and change annually. This year, the Tallmadge penal fines increased our revenue by \$26,000, and Tallmadge State Aid, per capita, increased our revenue by \$6,400. The three-year renewable contract increased both revenue and expenditures.

Expenditures also increased. To meet Class IV staffing requirements necessary to qualify for State Aid, the Library District changed the jobs, titles, and employment hours of some staff members. These changes resulted in increased personnel expenses of \$14,000. Lakeland Cooperative fees which are also based upon population increased by \$5,600. Additional expenses were incurred for library card printing and postage in order to mail out 8,661 replacement library cards to Tallmadge citizens.

The Library District intends to bring Tallmadge Township into full membership with trustees serving on the Library Board and passage of district wide millage in the future.

2. New GASB Statement #34 Financial Statement Presentation

As you will note from the following pages, this year's report is somewhat different from prior years due to the direction the Governmental Accounting Standards Board (GASB) provided in Statement No. 34. The GASB is charged with developing "generally accepted accounting principles" (GAAP) for governmental entities and is the ultimate authority on GAAP for state and local governments.

The financial statements enclosed and their accompanying notes are prepared under these directions.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library District's financial statements. The Library District's basic financial statements comprise three components:

1. government-wide statements
2. fund financial statement, and
3. notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves. The supplementary information includes this management discussion and analysis.

Government-wide Statements

The *statement of net assets* presents information on all of the Library District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the library is improving or deteriorating.

The *statement of activities* presents information showing how the Library District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library District, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Library District is accounted for in governmental funds including the general, debt service, capital projects funds and the Murray Memorial Permanent Trust.

Governmental Funds. *Governmental funds* are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental fund statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental fund and the government-wide statements.

The Library District maintains four governmental funds. Information is presented in the governmental funds balance sheet and in the government funds statement of revenues, expenditures, and changes in fund balances for the Library District. The general, debt service, capital projects and Murray funds are major funds for financial reporting purposes as defined by GASB Statement #34.

The Library District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided herein to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11 through 15 of this report.

The Library District does not maintain proprietary nor fiduciary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Library District's financial statements. The notes to the financial statements can be found on pages 16 through 24 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis. Because this is the first year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

Northeast Ottawa District Library Net Assets

	<u>Governmental Activities</u>
Current and other assets	\$201,378
Capital assets	<u>443,546</u>
Total assets	<u>644,924</u>
Long-term liabilities outstanding	619
Other liabilities	<u>32,801</u>
Total liabilities	<u>33,420</u>
Net assets:	
Invested in capital assets, net of related debt	416,377
Restricted	8,500
Unrestricted	<u>186,627</u>
Total net assets	<u>\$611,504</u>

Northeast Ottawa District Library Change in Net Assets

Governmental Activities

Revenue:

Program revenue:

Charges for services	\$ 44,828
Operating grants	<u>18,322</u>
Total program revenue	63,150

General revenue:

Property taxes	181,546
Penal fines	65,122
State Aid	18,679
Interest income	<u>2,300</u>

Total revenue 330,797

Expenses:

Library services	303,922
Interest on long-term debt	<u>3,128</u>

Total expenses 307,050

Increase in net assets 23,747

Net assets – beginning of year 587,757

Net assets – end of year \$ 611,504

Financial Analysis of the Governmental Funds

As of the end of the current fiscal year the combined fund balance of \$131,119 reflects an increase of \$23,167 from the previous year.

Significant changes in the general fund original budget were as follows:

1. Increased revenues were approximately \$18,000. Significantly increased revenue categories were: Donations, Cash Drawer Service Fees, Penal Fines, and State Aid.
2. Increased expenditures were approximately \$6,000. Significantly increased expenditure categories were: Grounds, Capital Improvement, and Supplies.
3. Decreased expenditures were approximately \$5,000. Significantly decreased categories were: Liability Insurance, Health Insurance, and Staff Development.

Capital Assets and Debt Administration

Capital Assets

- No major capital asset were purchased during the current fiscal year.

Northeast Ottawa District Library Capital Assets (net of depreciation)

	<u>Governmental Activities</u>
Land	\$ 20,000
Building	352,635
Furniture & Equipment	<u>70,911</u>
Total	<u>\$443,546</u>

Additional information on the Library's capital assets can be found in Note 4 on page 21 of this report.

Long-term Debt

Northeast Ottawa District Library Outstanding Debt

	<u>Governmental Activities</u>
Building Loan	\$27,169
Compensated absences	<u>619</u>
Total	<u>\$27,788</u>

Note: Debt Service is a separate fund. The building loan is an installment loan guaranteed and paid to the library in quarterly payments by the City of Coopersville. The annual payment is paid to the financial institution by the library. The \$27,169 will be paid in the full in March 2005.

Additional information on the Library District's long-term debt can be found in Note 6 on page 23 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Northeast Ottawa District Library's budget for the 2004/2005 fiscal year:

Fiscal Year 2003/04 was the first full year to experience the financial revenue and expenditure changes due to the annexation of Tallmadge population. Considerations in preparing the budget were dependant upon this change in population and the first completed year of these revenues and expenditures. The Library District anticipates a decrease in the State Aid rate per capita due to the Governor's budget proposal. We also anticipate a decline in Ottawa County Penal Fines based upon seven months of known revenue. Millage levy will be the same as last year and will not be affected by Headlee limits. The Library District anticipates a 4% increase in collected millages. Most captured millage by the Coopersville DDA will be donated back to the Library District. This has been confirmed by the City Manager.

There is no significant expenditure increase in most areas of the budget. Personnel expenses will increase by 9% and will be partially offset by the Reed Act grant awarded to the District Library.

Requests for Information

This financial report is designed to provide a general overview of Library District's finances for all those with an interest in the Library District finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Northeast Ottawa District Library, 333 Ottawa Street, Coopersville, Michigan 49404.

NORTHEAST OTTAWA DISTRICT LIBRARY

STATEMENT OF NET ASSETS

JUNE 30, 2004

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	<u>\$ 136,256</u>
Noncurrent assets	
Accounts receivable	65,122
Capital assets	
Land	20,000
Improvements, buildings and equipment (net)	<u>423,546</u>
Total noncurrent assets	<u>508,668</u>
Total assets	<u>644,924</u>
Liabilities	
Current liabilities	
Accounts payable	5,137
Interest payable	495
Bonds and notes payable within one year	<u>27,169</u>
Total current liabilities	<u>32,801</u>
Noncurrent liabilities	
Compensated absences	<u>619</u>
Total liabilities	<u>33,420</u>
Net assets	
Invested in capital assets, net of related debt	416,377
Restricted permanent trust corpus	8,500
Unrestricted	<u>186,627</u>
Total net assets	<u>\$ 611,504</u>

The accompanying notes are an integral part of these financial statements.

NORTHEAST OTTAWA DISTRICT LIBRARY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2004

Functions / Programs	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Library services	\$ 303,922	\$ 44,828	\$ 18,322	\$ -	\$ (240,772)
Interest on long-term debt	3,128	-	-	-	(3,128)
Total governmental activities	\$ 307,050	\$ 44,828	\$ 18,322	\$ -	(243,900)
General revenues:					
Property taxes					181,546
Penal fines					65,122
State revenue					18,679
Unrestricted investment earnings					<u>2,300</u>
Total general revenues					<u>267,647</u>
Change in net assets					23,747
Net assets, beginning of year, as restated					<u>587,757</u>
Net assets, end of year					<u>\$ 611,504</u>

The accompanying notes are an integral part of these financial statements.

NORTHEAST OTTAWA DISTRICT LIBRARY

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2004

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 92,036	\$ -	\$ 35,720
<u>TOTAL ASSETS</u>	<u>\$ 92,036</u>	<u>\$ -</u>	<u>\$ 35,720</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
Accounts payable and accrued wages	\$ 5,137	\$ -	\$ -
 FUND EQUITY			
Fund balances:			
Reserved	-	-	
Unreserved	86,899	-	35,720
 TOTAL FUND EQUITY	<u>86,899</u>	<u>-</u>	<u>35,720</u>
 <u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$ 92,036</u>	<u>\$ -</u>	<u>\$ 35,720</u>

The accompanying notes are an integral part of these financial statements.

<u>PERMANENT</u>			
<u>MURRAY</u>			
<u>TRUST</u>		<u>TOTAL</u>	
\$	8,500	\$	136,256
\$	8,500	\$	136,256

\$	-	\$	5,137
----	---	----	-------

	8,500		8,500
	-		122,619
	8,500		131,119
\$	8,500	\$	136,256

NORTHEAST OTTAWA DISTRICT LIBRARY

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

JUNE 30, 2004

Fund balances - total governmental funds	\$ 131,119
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets	587,314
Deduct - accumulated depreciation	(143,768)
Some assets reported in the balance sheet do not provide current financial resources and therefore are not included in fund balance on the fund financial statements	
Add - Penal fines not considered to be available for the fund statements	65,122
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - Compensated absences payable	(619)
Deduct - bonds/notes payable	(27,169)
Deduct - accrued interest on bonds/notes payable	<u>(495)</u>
Net assets of governmental activities	<u>\$ 611,504</u>

The accompanying notes are an integral part of these financial statements.

NORTHEAST OTTAWA DISTRICT LIBRARY

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

	GENERAL	DEBT SERVICE	CAPITAL PROJECTS
REVENUES			
Property taxes	\$ 182,370	\$ -	\$ -
Penal fines	71,402	-	-
Appropriations from other governmental units	-	29,149	-
State revenue sharing	17,855	-	-
Federal revenue	356	-	-
Charges for services	15,679	-	-
Interest	1,891	-	-
Donations	14,050	-	3,416
TOTAL REVENUES	303,603	29,149	3,416
EXPENDITURES			
Current:			
Salaries, wages and taxes	163,277	-	-
Fringe benefits	24,552	-	-
Professional services	9,652	-	-
Memberships and dues	430	-	-
Inservice, workshops	1,518	-	-
Books	16,212	-	-
Periodicals/magazines	1,901	-	-
Video materials	1,773	-	-
Audio materials	4,228	-	-
Office supplies	554	-	-
Postage	1,205	-	-
Utilities	7,104	-	-
Telecommunications	2,235	-	-
Transportation	407	-	-
Collections supplies	1,995	-	-
Insurance	6,425	-	-
Repairs and maintenance	14,086	-	-
Lakeland Cooperative	20,108	-	-
Miscellaneous	405	-	-
Capital outlay	3,191	-	3,094
Debt service:			
Principal	-	25,638	-
Interest	-	3,511	-
TOTAL EXPENDITURES	281,258	29,149	3,094
REVENUES OVER (UNDER) EXPENDITURES	22,345	-	322
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	10,000
Transfers out	(10,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(10,000)	-	10,000
NET CHANGE IN FUND BALANCES	12,345	-	10,322
FUND BALANCES, BEGINNING OF YEAR	74,554	-	25,398
FUND BALANCES, END OF YEAR	\$ 86,899	\$ -	\$ 35,720

The accompanying notes are an integral part of these financial statements.

PERMANENT	
MURRAY	
TRUST	TOTAL
\$ -	\$ 182,370
-	71,402
-	29,149
-	17,855
-	356
-	15,679
409	2,300
500	17,966
909	337,077

-	163,277
-	24,552
-	9,652
-	430
-	1,518
409	16,621
-	1,901
-	1,773
-	4,228
-	554
-	1,205
-	7,104
-	2,235
-	407
-	1,995
-	6,425
-	14,086
-	20,108
-	405
-	6,285
-	25,638
-	3,511
409	313,910
500	23,167
-	10,000
-	(10,000)
-	-
500	23,167
8,000	107,952
\$ 8,500	\$ 131,119

NORTHEAST OTTAWA DISTRICT LIBRARY

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

FOR THE YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds \$ 23,167

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	1,247
Deduct - depreciation expense	(19,789)

Bond/note proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds/notes increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but is a reduction in the liability on the statement of net assets.

Add - principal payments on bonds and notes payable	25,638
---	--------

Some revenue reported in the statement of activities does not provide current financial resources and therefore are not reported as revenues in the statement of revenues, expenditures and changes in fund balances.

Deduct - change in penal fines receivable in the general fund	(6,280)
---	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances.

Deduct - increase in compensated absences payable	(619)
Add - decrease in accrued interest payable on bonds	383

Change in net assets of governmental activities	<u>\$ 23,747</u>
---	------------------

The accompanying notes are an integral part of these financial statements.

NORTHEAST OTTAWA DISTRICT LIBRARY

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Property taxes	\$ 181,907	\$ 182,365	\$ 182,370	\$ 5
Penal fines	63,672	71,402	71,402	-
State revenue sharing	14,156	17,854	17,855	1
Federal revenue	400	355	356	1
Charges for services	12,850	15,678	15,679	1
Interest	1,650	1,480	1,891	411
Donations	10,000	14,249	14,050	(199)
TOTAL REVENUES	284,635	303,383	303,603	220
EXPENDITURES				
Salaries, wages and taxes	161,856	162,426	163,277	(851)
Fringe benefits	26,252	24,553	24,552	1
Professional services	7,791	9,656	9,652	4
Memberships and dues	470	430	430	-
Inservice, workshops	2,430	1,519	1,518	1
Books	16,733	16,213	16,212	1
Periodicals/magazines	1,770	1,901	1,901	-
Video materials	2,100	1,773	1,773	-
Audio materials	3,550	4,229	4,228	1
Office supplies	800	555	554	1
Postage	700	1,205	1,205	-
Printing and publishing	100	-	-	-
Utilities	6,120	6,573	7,104	(531)
Telecommunications	2,018	2,235	2,235	-
Transportation	600	408	407	1
Collections supplies	1,150	1,997	1,995	2
Insurance	8,142	6,425	6,425	-
Repairs and maintenance	10,011	14,091	14,086	5
Lakeland Cooperative	21,488	20,108	20,108	-
Advertising	54	-	-	-
Miscellaneous	300	405	405	-
Equipment	4,200	3,192	3,191	1
TOTAL EXPENDITURES	278,635	279,894	281,258	(1,364)
REVENUES OVER (UNDER) EXPENDITURES	6,000	23,489	22,345	(1,144)
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(6,000)	(10,000)	(10,000)	-
NET CHANGE IN FUND BALANCE	-	13,489	12,345	(1,144)
FUND BALANCES, BEGINNING OF YEAR	74,554	74,554	74,554	-
FUND BALANCES, END OF YEAR	\$ 74,554	\$ 88,043	\$ 86,899	\$ (1,144)

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Northeast Ottawa District Library conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

The Reporting Entity

The Library is governed by a Board, appointed in accordance with the Library bylaws. The Board has governance responsibilities over all activities related to the Northeast Ottawa District Library. The Board receives funding from local and state government sources and must comply with concomitant requirements of these funding entities. However, the Board is not included in any other governmental "reporting entity" as defined by the Government Accounting Standards Board since the Board members, who are appointed have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by charges for services and tax revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State revenue, fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for financial resources of the Library which are not required to be reported in another fund.

The *capital projects fund* is utilized to account for the accumulation and disbursement of funds for the construction and equipping of the Library facility.

The *debt service fund* is utilized to account for the accumulation and disbursement of funds to provide for the debt service on Library construction debt.

The *permanent trust fund – Murray trust fund* is utilized to account for the corpus and related earnings on corpus which is restricted for library material purchases.

Budgets and Budgetary Accounting

Comparisons to budget are presented for the general fund, as required by generally accepted accounting principles. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general fund only.

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

5. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the Library are governed by Public Act 621, which was followed for the year. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures at the line item level. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any line item must be approved by the Library Board.
7. Budgeted amounts are as originally adopted, or as amended by the Library Board.

Compensated Absences

District Library employees earn vacation and sick leave in varying amounts based on length of service. Unused vacation pay and sick pay leave may accumulate and be carried over to a subsequent year, subject to restrictions. No portion of unused sick leave is paid to employees at the time of termination or retirement. It is the District Library's policy to recognize the cost of sick leave at the time payments are made. Vacation leave accrued at year end which is subject to payment upon termination has been included as a liability on the statement of net assets and not on the fund balance sheet as the balance is not expected to be liquidated with expendable available financial resources.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted resources are utilized first when allowable costs are incurred where both restricted and unrestricted net assets are available.

Cash and Cash Equivalents

The District Library considers all cash, demand deposits and short-term investments with an original maturity of three months or less to be cash and cash equivalents.

Capital Assets

Capital assets, which include property and equipment are reported in the government-wide statements (statement of net assets). Capital assets are defined by the Library as assets with an initial, individual cost of more than \$500 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of revenues, expenditures and changes in fund balances) and are subsequently capitalized on the government-wide statements.

Depreciation is recorded over the estimated useful lives of the assets, using the straight-line method for all capital assets, as follows:

	<u>Years</u>
Furniture, fixtures and equipment	7-30
Building	50

Deferred Compensation Plan

The Library offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Library employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Library's financial statements.

Transfers

Transfers from the general fund to the capital projects fund were to provide operating funds for the Library construction and equipping the Library.

Notes Payable

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported on the statement of net assets.

Property Taxes

Library property taxes are attached as an enforceable lien on property as of December 1st. Taxes are levied December 1 and are due without penalty on or before February 15. These winter tax bills are collected by the City of Coopersville, Wright Township, Polkton Township and Chester Township. Real property taxes not collected are returned to the County for collection, which advances the Library 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the collecting entity.

Net Assets/Fund Equity

Reserves represent those portions of fund balance not appropriable for expenditures or legally segregated for a specific future use. Restricted net assets are legally restricted in perpetuity as the balance represents the corpus of a permanent trust.

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2004, the Library carried commercial insurance to cover all risks of losses. The Library has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a line item basis.

During the year ended June 30, 2004, the Library incurred expenditures in excess of the amounts appropriated as displayed in the general fund budget and actual statement.

3. CASH EQUIVALENTS AND DEPOSITS

Cash equivalents and deposits consist of the following at June 30, 2004:

Cash equivalents	\$101,488
Certificates of deposit	<u>34,768</u>
Total deposits	<u>\$136,256</u>

The bank balance of these deposits was as follows:

Summary of insured and uninsured deposits are:

Insured (FDIC)	\$134,768
Uninsured, uncollateralized	<u>7,105</u>
Total	<u>\$141,873</u>

These deposits are in two (2) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the Library and a specific fund or common account. They are recorded in Library records at cost. Interest is recorded when earned.

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

3. CASH EQUIVALENTS AND DEPOSITS (CONTINUED)

Statutory Authority

Act 217, PA 1982, authorizes the Library to deposit and invest in:

- a. Bonds and other direct obligations of the United States or its agencies.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools are authorized by Public Act 20 as amended through December 31, 1997.

The Library's investments consist of certificates of deposit which are included with deposits for risk categorization purposes.

4. CAPITAL ASSETS

Changes in General Fixed Assets for the year ending June 30, 2004, are as follows:

Changes in the components of the capital assets are summarized as follows:

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital assets being depreciated:				
Building	435,352	-	-	435,352
Furniture and equipment	130,715	1,247	-	131,962
Total capital assets	566,067	1,247	-	567,314
Accumulated depreciation				
Building	74,010	8,707	-	82,717
Furniture and equipment	49,969	11,082	-	61,051
Total accumulated depreciation	123,979	19,789	-	143,768
Net capital assets	\$462,088	\$(18,542)	\$ -	\$443,546

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

5. DEFINED BENEFIT PENSION PLAN

Plan Description

The Library participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits covering all full-time Library employees. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Library is required to contribute at an actuarially determined rate; the current rate varies by position from 6.74% to 15.49%, participating employees are not required to contribute to the Plan. The current year contribution amount was \$12,646. The contribution requirements of the Library are established and may be amended by the MERS Retirement Board.

Annual Pension Cost

The Library's annual pension cost for MERS was equal to the Library's required and actual contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8 percent; (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0 percent to 4.2 percent per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest actuarial valuation, was 32 years.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$10,242	100%	\$ -
2003	9,841	100%	-
2004	12,646	100%	-

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

5. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$ 71,774	\$114,594	\$42,820	63%	\$ 95,269	45%
12/31/02	86,488	134,907	48,419	64%	101,627	48%
12/31/03	107,496	158,630	51,139	64%	121,988	42%

6. LONG-TERM DEBT

On March 8, 1995 the Library obtained a loan from a bank in the amount of \$205,327 to be used toward an addition to the Library. The loan bears interest at the rate of 6.75% per annum and is due in 10 annual installments of \$29,149 including interest through March 31, 2005.

A summary of changes in long-term debt follows:

	Balance July 1, 2003	Additions	Dispositions	Balance June 30, 2004	Due Within One Year
Note payable	\$52,807	\$ -	\$(25,638)	\$27,169	\$27,169
Compensated absences	-	619	-	619	-
Total	\$52,807	\$619	\$(25,638)	\$27,788	\$27,169

7. RESTATEMENT

As of and for the year ended June 30, 2004, the Library implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

7. RESTATEMENT (CONTINUED)

Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The Library is required to implement the new requirements no later than the fiscal year ending June 30, 2004.

The more significant of the changes required by the new standards include:

- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - Budgetary statements and schedules;
 - Notes to the basic financial statements
- Required supplementary information, including certain budgetary schedules.

Primary Government:

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to beginning net asset accounts:

Fund balances as restated as of June 30, 2003	\$107,952
Add: Governmental capital assets, including general fixed assets as of June 30, 2003	462,088
Deduct: Bonds and notes payable as of June 30, 2003	(52,807)
Deduct: Accrued interest on bonds and notes as of June 30, 2003	(878)
Add: Penal fines which did not meet the measurable and available criteria as of June 30, 2003	71,402
	<hr/>
Governmental net assets, restated, as of July 1, 2003	\$587,757

* * * * *

**INTERNAL CONTROL
AND
COMPLIANCE**



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

July 30, 2004

To the Board of Directors
Northeast Ottawa District Library
Coopersville, Michigan

We have audited the basic financial statements of Northeast Ottawa District Library, as of and for the year ended June 30, 2004, and have issued our report thereon dated July 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Northeast Ottawa District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Northeast Ottawa District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the board members, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.